1972 ANNUAL REPORT

dome petroleum limited

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head office

706 - 7th Avenue S.W.
Calgary, Alberta

Royal Canadian Mounted Police officer on patrol in Northern Canada. 1973 marks the 100th anniversary of this world famous force.

directors

Norman J. Alexander,
Winnipeg, Manitoba
Managing Partner;
Richardson Securities of Canada

John P. Gallagher,
Calgary, Alberta
President of the Company

John L. Loeb,
New York, N.Y.
Senior Partner; Loeb, Rhoades & Co.

Fraser M. Fell,
Toronto, Ontario
Partner; Fasken & Calvin

A. Bruce Matthews,
Toronto, Ontario
Chairman of the Board;
The Excelsior Life Insurance Company

Clifford W. Michel,
New York, N.Y.
Chairman of the Board; Dome Mines Limited
General Partner; Kuhn, Loeb & Co.

William F. Morton,
Winchester, Mass.
Investment Manager

James B. Redpath,
Toronto, Ontario
President; Dome Mines Limited

registrars & transfer agents

Canada Permanent Trust Company
Toronto, Montreal, Regina, Calgary

The Bank of New York
New York, N.Y.

general counsel

Fasken & Calvin
Toronto, Ontario

auditors

Clarkson, Gordon & Co.
Calgary, Alberta

stock listings

Toronto Stock Exchange
Montreal Stock Exchange
American Stock Exchange

officers

Clifford W. Michel,
Chairman of the Board

John P. Gallagher,
President

William E. Richards,
Executive Vice-President and Secretary

Charles S. Dunkley,
Vice-President

Donald M. Wolcott,
Vice-President

James B. Redpath,
Vice-President

Henry T. Astle,
Treasurer

Fraser M. Fell,
Assistant Secretary

annual meeting

The Annual General Meeting of the Shareholders of the Company will be held at the Royal York Hotel, Toronto, Ontario, on April 30, 1973, at 11:30 a.m. A formal notice of meeting and proxy form are enclosed with this report. Please return your proxy if you are unable to attend the meeting.

comparative highlights

financial summary

	1972	1971
Revenue	$52,736,000	$41,510,000
Cash Flow	$17,358,000	$15,902,000
Cash Flow per share	$1.68	$1.55
Net Income before Extraordinary Items	$11,033,000	$10,203,000
Net Income per share	$1.07	$1.00
Average Shares Outstanding	10,316,000	10,235,000
Retained Earnings	$86,545,000	$75,512,000
Long Term Debt	$83,079,000	$73,102,000
Capital Expenditures	$36,636,000	$28,838,000

operating summary

	1972	1971
Oil and Natural Gas Liquids Production (net barrels per day)	28,020	21,084
Gas Production (billion cubic feet per day)	135.3	138.9
Remaining Oil and Gas Liquids Reserves (net barrels)*	106,000,000	109,500,000
Remaining Gas Reserves (billion cubic feet)*	1,350	1,297
Wells Drilled	103	81
Land** — Working Interest, Gross Acres	43,268,000	22,112,000
— Working Interest, Net Acres	23,656,000	16,403,000
— Gross Royalty Acres	45,191,000	236,000

*Excludes Arctic Islands reserves and reserves processed at the Steelman, Edmonton, Cochrane, Coleville and Empress plants.

**1972 land includes acreage acquired in January, 1973.

first quarter 1973 summary

	1973	1972
Revenue	$16,100,000	$12,760,000
Cash Flow	$ 4,970,000	$ 4,771,000
Cash Flow per share	$0.48	$0.46
Net Income (after all charges)	$ 3,240,000	$ 3,061,000
Net Income per share	$0.31	$0.30
Oil, Natural Gas Liquids and Oil Equivalent of Gas Production (net barrels per day)	39,600	36,200

First quarter figures are unaudited.

report of the directors

to the shareholders

Modest financial gains were realized during 1972. Revenues totalled $52,736,000 compared with $41,510,000 in 1971, cash flow increased to $17,358,000 from $15,902,000 and net income, before extraordinary items, amounted to $11,033,000 compared with $10,203,000 during the previous year.

For the past few years, your Company has made substantial investments in its natural gas liquids production and delivery system and in oil field pressure-maintenance schemes. These projects had not reached the point of development in 1972 to make any appreciable contribution to earnings, but they should be fully operational by late 1973.

The Company continued to pursue a balanced program of exploration, with substantial expenditures being made both in Western Canada and in the frontier regions of the Northwest Territories, especially in the Arctic Islands. Because of current indications of substantial price increases for oil and natural gas, exploratory efforts in areas close to existing pipelines offer the prospect of early and substantial contributions to earnings, while frontier exploration affords the opportunity for the development of major new reserves.

In the Arctic, the Company completed extensive seismic and geological work preparatory to the commencement of drilling, and during the last quarter of the year spudded the first well in the current Arctic drilling program. This well resulted in the discovery of substantial gas reserves which, together with those previously established in the general area by Panarctic Oils Ltd., contribute to the "threshold" volume required for the construction of a gas pipeline from the Arctic Islands.

In January, 1973, the Company increased its exploration exposure by the addition of 8,500,000 net acres of oil and gas rights and 41,200,000 acres of royalty interests mainly located in the highly potential frontier areas of the Canadian East Coast, Mackenzie Delta and Arctic Islands.

Construction has commenced on the eastern delivery system to transport natural gas liquids to the synthetic natural gas plant of Columbia LNG Corporation. This system of storage and pipelines is planned to extend ultimately from Marysville, Michigan via Windsor, Ontario to Green Springs, Ohio and will cost approximately $40 million. Term loans have been arranged for the financing of all of these current projects.

Developments during the past year have focused attention on the growing energy shortage in the United States resulting in part from governmental restrictions on prices which have tended to curtail the search for new oil and gas reserves. This shortage has greatly increased the demand for Canadian petroleum hydrocarbons and has led to an intensification of exploration in those areas of Canada where potential revenues justify the risks. With a relatively large and selective acreage position, coupled with a well financed exploration program, Dome is in an excellent position to play an important part in this effort. In addition, the Company's strong position in the production and transportation of natural gas liquids has enabled it to respond quickly to the growing demand for energy in North America.

It is eleven years since Dome drilled Canada's first well in the Arctic Islands. Most of the employees who participated in that pioneer venture are still with the Company. Your Board of Directors is grateful for their vision and for the continued outstanding performance of all employees during the past year.

April 6, 1973

C. W. Michel
Chairman of the Board

J. P. Gallagher
President

exploration

areas of interest

LAND HOLDINGS

	Working Interest Gross Acres	Working Interest Net Acres	Royalty Gross Acres
Alberta	2,800,000	1,878,000	866,000
British Columbia	2,035,000	1,750,000	853,000
Saskatchewan and Manitoba	189,000	69,000	454,000
Ontario	5,000	5,000	9,330,000
Arctic Islands	23,189,000	10,794,000	16,816,000
Mackenzie Valley	4,907,000	3,296,000	6,396,000
Canadian East Coast	9,831,000	5,666,000	10,467,000
Alaska & Other U.S.	261,000	192,000	9,000
North Sea	51,000	6,000	—
	43,268,000	23,656,000	45,191,000

Background — Dome gas discovery well at Wallis on King Christian Island.

exploration review

introduction

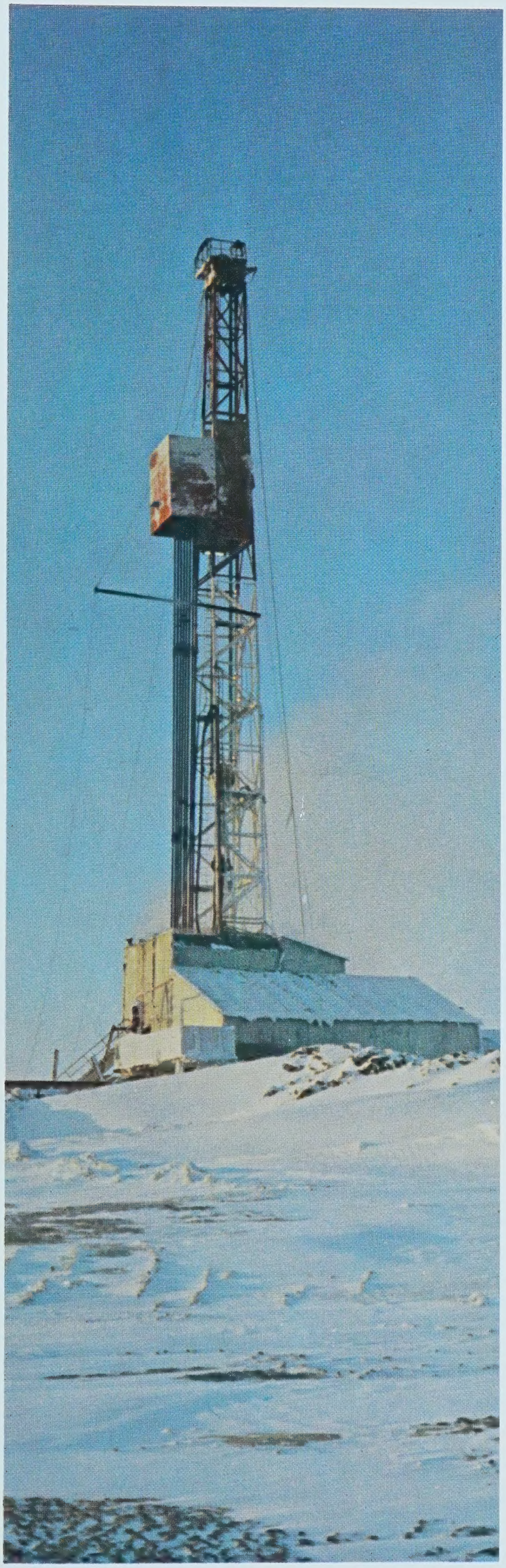
The growing demand for Canadian oil and gas has provided added impetus to the Company's exploration program. Exploratory drilling in 1972 resulted in two oil wells and 21 gas wells out of a total of 60 wells drilled. Thirty-nine of these wells were drilled at no cost to Dome. Significant gas discoveries were made at Niton and Saddle Hills in Alberta, at Nettle in British Columbia, at Kemik on Alaska's North Slope and, through Panarctic, on Melville Island in the Canadian Arctic. In addition, the first well in Dome's drilling program in the Arctic Islands was spudded, resulting in a major gas discovery early in 1973.

The Company's land holdings increased appreciably in January, 1973 with the acquisition for cash of all of the outstanding shares of Transalta Oil and Gas Limited, Transalta Exploration Ltd. and Transalta Oil & Gas (Alaska) Inc. This acquisition included a working interest in 22,600,000 gross acres (8,500,000 net acres) and a royalty interest in 42,800,000 acres. A breakdown by area of total land holdings, including the Transalta acreage, is given in the table on the previous page.

The Transalta acreage is concentrated in the frontier areas of Canada. Dome will consequently obtain much greater exposure to the large scale exploratory programs being carried out by industry, particularly off the east coast of Canada. In the Arctic Islands and the Mackenzie Valley, Dome's existing exploratory programs will be extended to include the Transalta acreage, and work credits will be pooled to reduce the cost of maintaining all permits.

In the North Sea, seismic surveys have been completed on a 51,000 acre parcel in which the Company holds an 11.25% interest. This acreage is located nine miles west of the Frigg field in the Norwegian Sector. Dome has also joined a group of companies in a preliminary survey of exploration permits in the Irish Sea.

In addition to exploring for petroleum hydrocarbons, Dome continued its 33% participation in a minerals exploration program conducted by Dome Mines Limited. Work is progressing on a number of claims in Canada and Alaska.



arctic islands

The highlight of Dome's exploratory activities in the Arctic Islands was the recent gas discovery on a 190,000 acre permit block at Wallis on King Christian Island. This was the first well of a $30 million, five year exploratory drilling program financed by Canadian subsidiaries of a number of U.S. gas transmission companies. The expenditures by these companies (the Arctic Ventures group) will be credited towards fulfilment of Dome's financial obligations under its joint exploration agreement with Columbia Gas Development of Canada Ltd.

Results of tests conducted on the Wallis well have identified three distinct gas bearing zones and net gas pay of approximately 300 feet. A drillstem test on the upper zone established high deliverability and it is expected that final flow tests of the lower zones will add considerably to the indicated reserves.

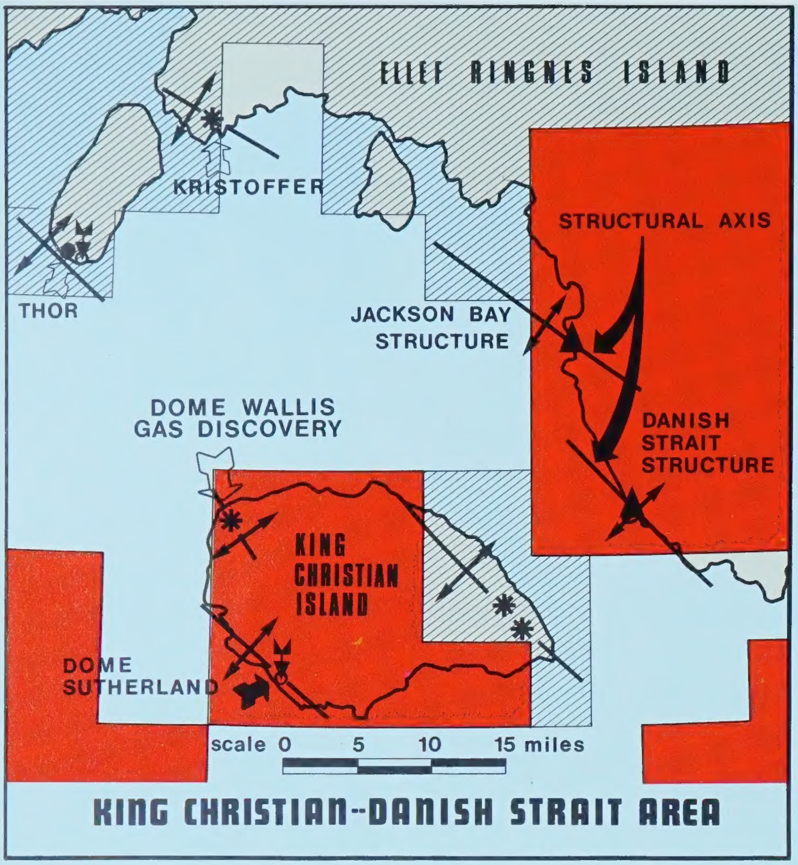
The second well to be drilled by the Company under the Dome Arctic Ventures agreement was recently spudded on the large Sutherland structure 12 miles to the south of the Wallis gas discovery. Projected as a 13,500 foot test, the Sutherland well will not only test the gas sands productive at Wallis, but also will be searching for deeper hydrocarbon bearing reservoirs that have not previously been tested in this part of the Sverdrup Basin.

To aid in the selection of future drilling locations, Dome conducted or participated in seismic surveys on Company acreage on Melville, King Christian, Ellef Ringnes, Amund Ringnes, Haig Thomas, and Meighen Islands, and on sea-ice between the islands of the Sverdrup Basin.

Panarctic Oils Ltd., a consortium of private companies (including Dome) and the Canadian government, enjoyed another successful year of exploratory drilling in the Canadian Arctic. Two highly significant step-out wells to the Drake Point gas discovery on the Sabine Peninsula of Melville Island have extended the known limits of this field at least 12 miles to the east. Panarctic also drilled a gas discovery at Hecla, 25 miles west of Drake Point, and is currently drilling a delineation well. Dome holds a 100% interest in 402,000 acres of petroleum and natural gas rights from 10 to 25 miles south of the Drake Point and Hecla gas fields and only four miles east of Panarctic's currently drilling 10,000 foot Devonian test at Eldridge.

On Thor Island, off the west coast of Ellef Ringnes Island, a well drilled by Panarctic 12 miles south of Dome's 331,400 acre block of permits (203,700 net acres) and 24 miles north of Dome's Wallis well, tested a significant amount of oil, which has encouraged the drilling of a follow-up well now under way on the same structure.

The map on the following page shows the location of all wells now drilling in the Arctic Islands, Dome's projected wells, and acreage owned directly or through Panarctic.



ARCTIC ISLANDS

LEGEND

DOME WORKING INTEREST ACREAGE

DOME ROYALTY INTEREST ACREAGE

DOME INTEREST THROUGH PANARCTIC

GAS WELL

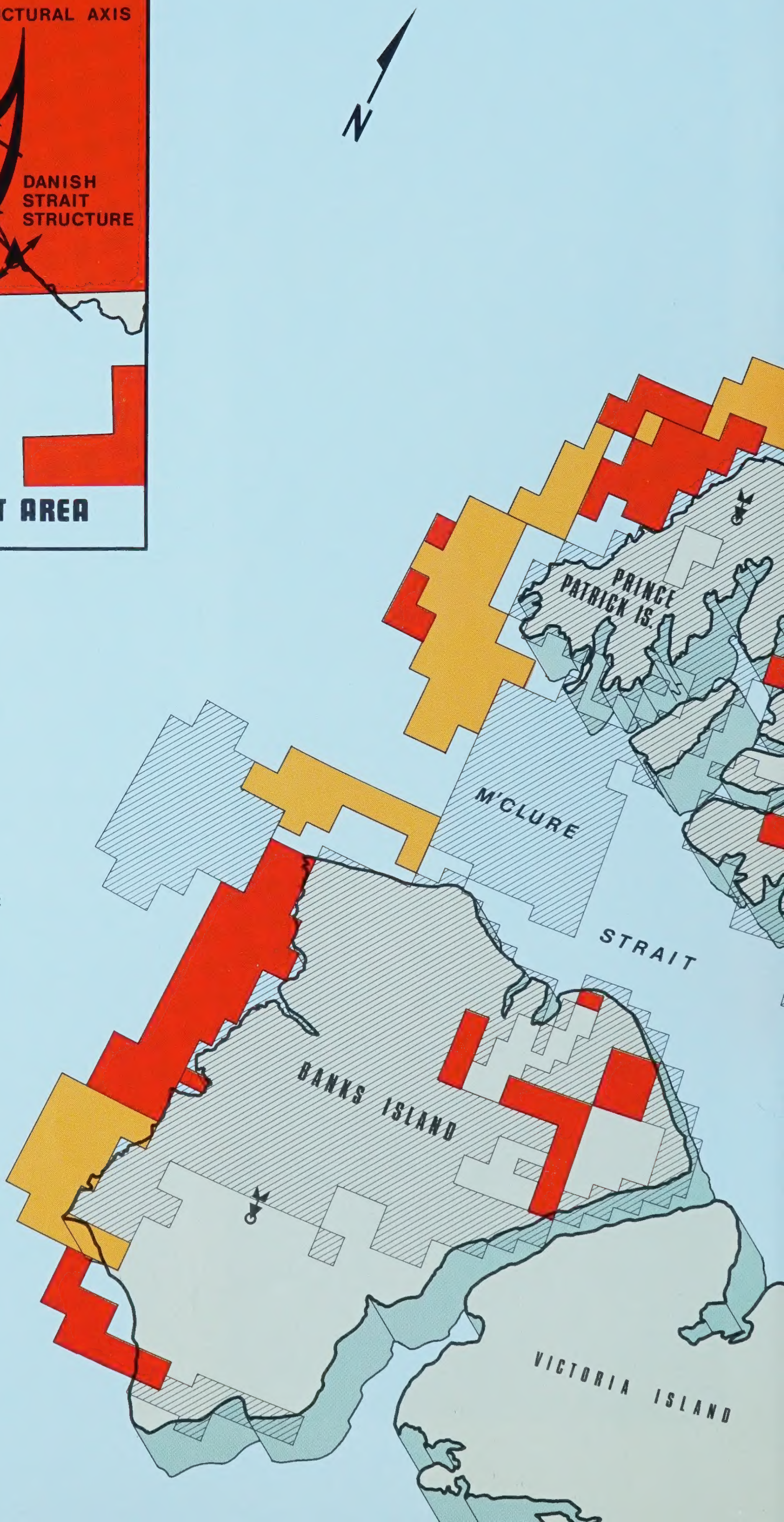
OIL WELL

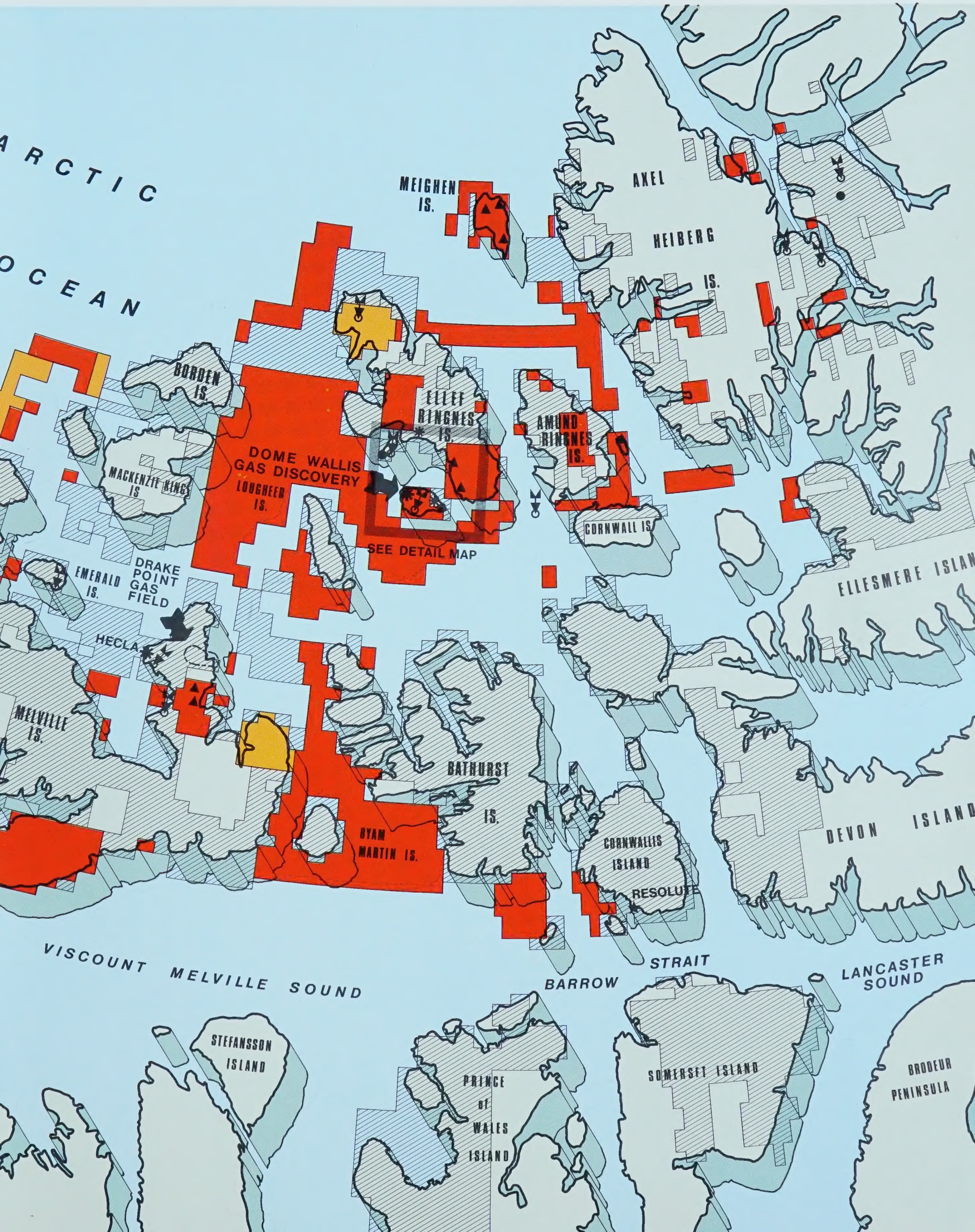
DRILLING WELL

PROPOSED DOME LOCATION

scale 0 50 100 miles

DOME ACREAGE	GROSS	NET
WORKING INTEREST	23,189,000	10,789,000
ROYALTY INTEREST	16,816,000	




ARCTIC
OCEAN
MEIGHEN IS.
AXEL
HEIBERG
IS.
BORDEN IS.
ELLEF RINGNES IS.
AMUND RINGNES IS.
DOME WALLIS GAS DISCOVERY
LOUGHEED IS.
MACKENZIE KING IS
CORNWALL IS
SEE DETAIL MAP
ELLESMERE ISLAND
EMERALD IS.
DRAKE POINT GAS FIELD
HECLA
MELVILLE IS.
BATHURST IS.
BYAM MARTIN IS.
CORNWALLIS ISLAND
RESOLUTE
DEVON ISLAND
VISCOUNT MELVILLE SOUND
BARROW STRAIT
LANCASTER SOUND
STEFANSSON ISLAND
PRINCE of WALES ISLAND
SOMERSET ISLAND
BRODEUR PENINSULA

mackenzie valley

Dome's Mackenzie Valley exploration program extends from Great Slave Lake to the Mackenzie Delta and Beaufort Sea and includes acreage on Alaska's North Slope. Four wells were drilled in 1972 and substantial new acreage was added in January of 1973.

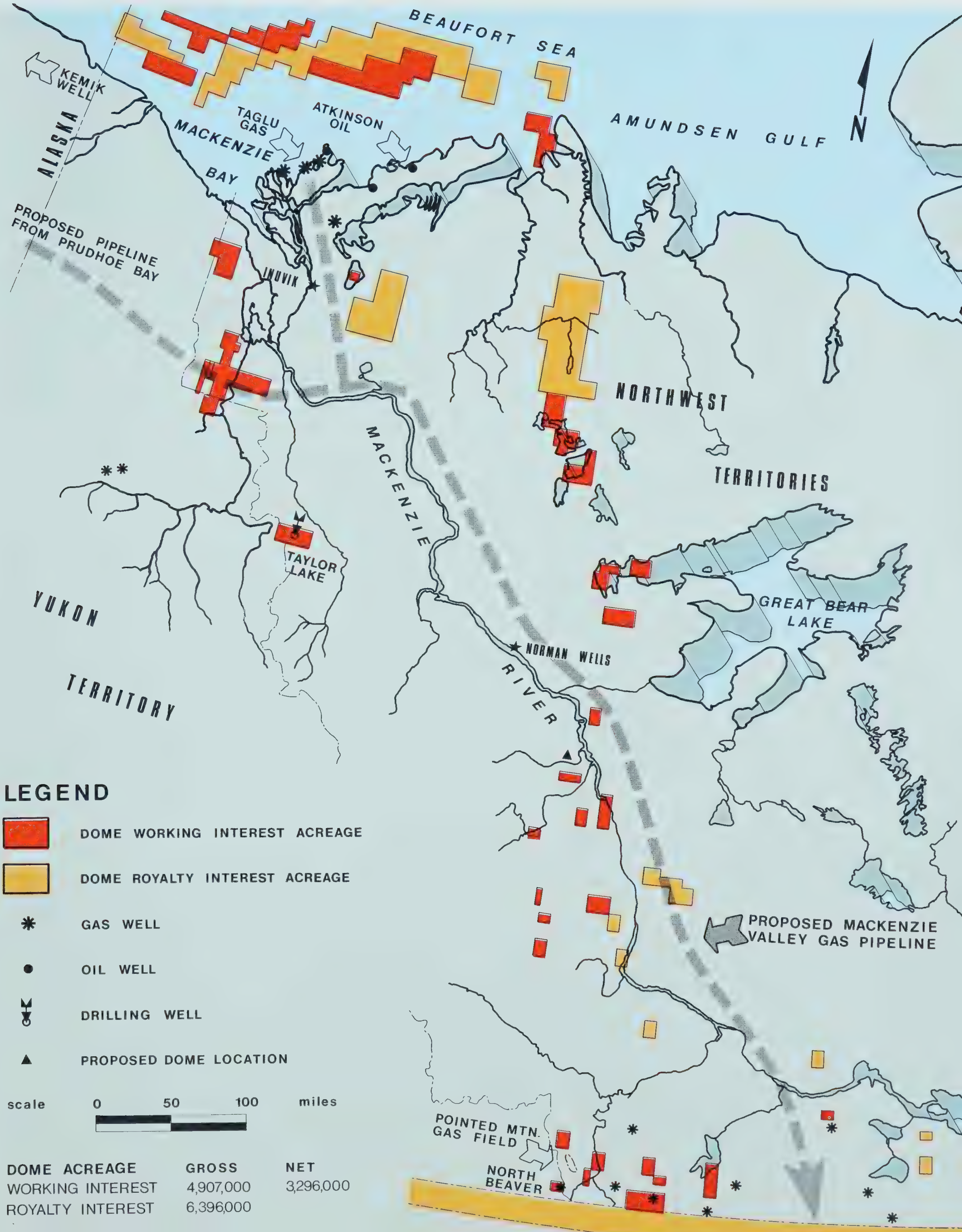
In the Mackenzie Delta region three oil discoveries and eight gas discoveries have been made by industry to date. Sufficient gas reserves have been established to justify the construction of a large diameter pipeline to markets in Canada and the United States. Plans for such a pipeline are well advanced and construction could begin as early as 1975. Ultimately, the pipeline is expected to extend to Prudhoe Bay on Alaska's North Slope.

Perhaps the most attractive part of the Delta lies beneath the shallow waters of the Beaufort Sea. Seismic surveys on Dome's large land holdings in this portion of the Delta have indicated the presence of numerous potential hydrocarbon traps. Hunt International Petroleum Company of Canada is committed to drill a 12,000 foot test well on this acreage by 1974.

South of the Delta, a seismic program has just been completed on Dome acreage at Canoe Lake and the results are now being evaluated. The Company recently commenced the drilling of an important exploratory test on a large structure at Taylor Lake, 175 miles west-northwest of Norman Wells on the Mackenzie River.

At Kemik, on Alaska's North Slope, the Company participated in the drilling of an indicated commercial gas discovery and earned an 11.75% interest in the well and the contiguous 32,000 acres on this major structure. The well is approximately 55 miles south of Prudhoe Bay on the proposed gas pipeline route to the Mackenzie Valley. Further details are being withheld for competitive reasons.

The location of Dome's acreage in the Mackenzie Valley and of significant wells in the area are shown on the adjoining map.



DOME ACREAGE	GROSS	NET
WORKING INTEREST	4,907,000	3,296,000
ROYALTY INTEREST	6,396,000	

western provinces

Dome continued to carry out an active exploration program in the Western Canadian Provinces during the past year. Substantial shallow gas reserves were established in the Medicine Hat area of Alberta and further development drilling may be undertaken this summer. In addition, significant gas discoveries were made in the following areas:—

SADDLE HILLS, Peace River Area, Alberta — where gas was discovered on a 19,360 acre block in which Dome holds a 50% working interest.

NITON, Central Alberta — where gas was discovered on a prospect in which 10,700 acres (5,200 net acres) of petroleum and natural gas rights are held. Dome's acreage interest will be increased after further planned drilling is completed.

NETTLE, Northeastern British Columbia — where three successful gas wells were drilled. Dome holds interests in the area varying from 62% to 100% in 32,000 acres (30,000 net acres).

• • •

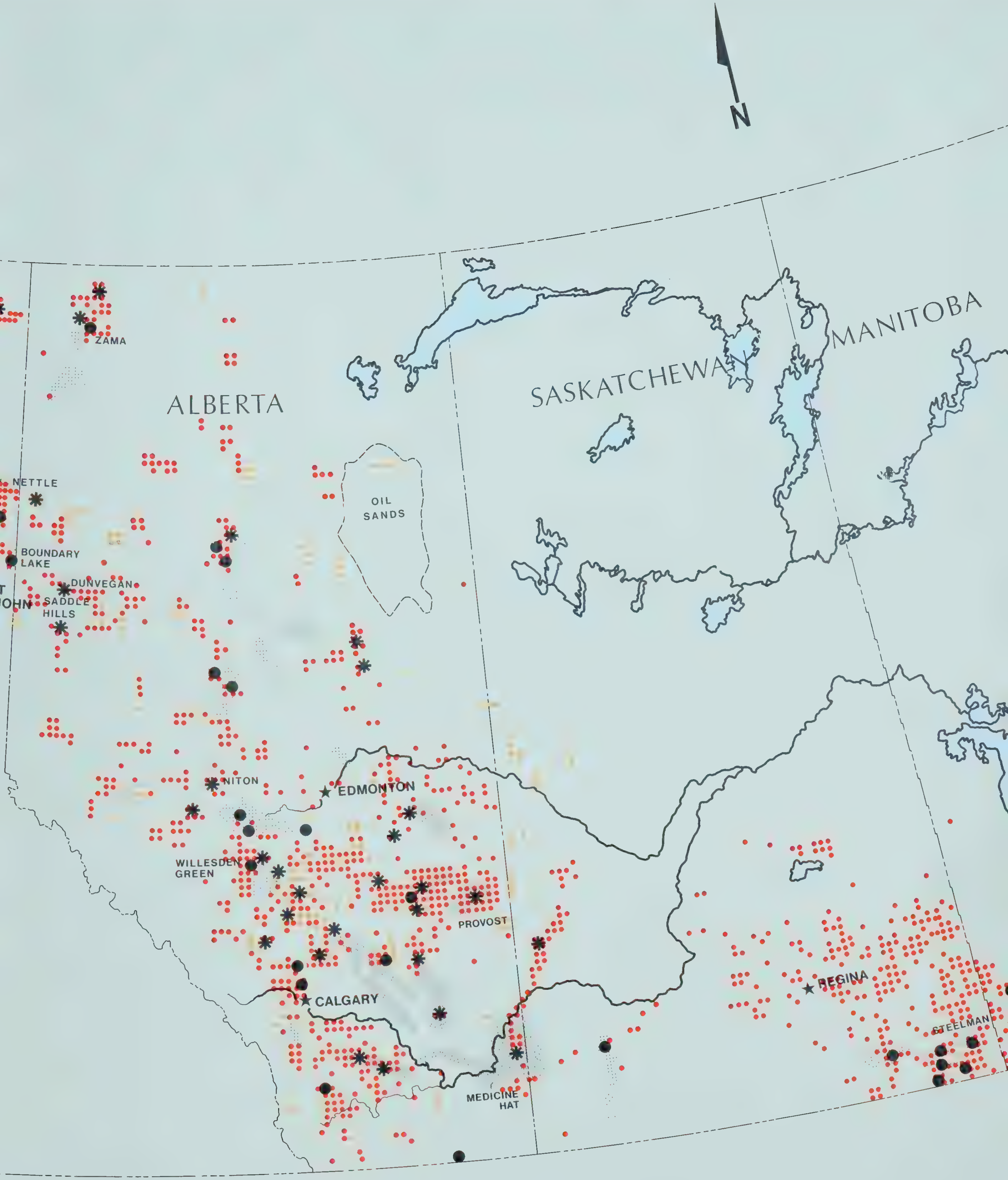
Dome is currently drilling a deep test well on the Ritchie structure in the Bowser Basin, located 50 miles from tidewater in the west-central part of British Columbia. This is a follow-up to a 1969 test which encountered minor gas shows in the same structure. It should be recognized that this is a high risk venture, but the expenditure is justified by the size of the domal structure covering an area of 65 square miles and by the ready access to markets. The major share of the cost of the projected 11,000 foot test is being borne by other companies under a farmout agreement.

LEGEND

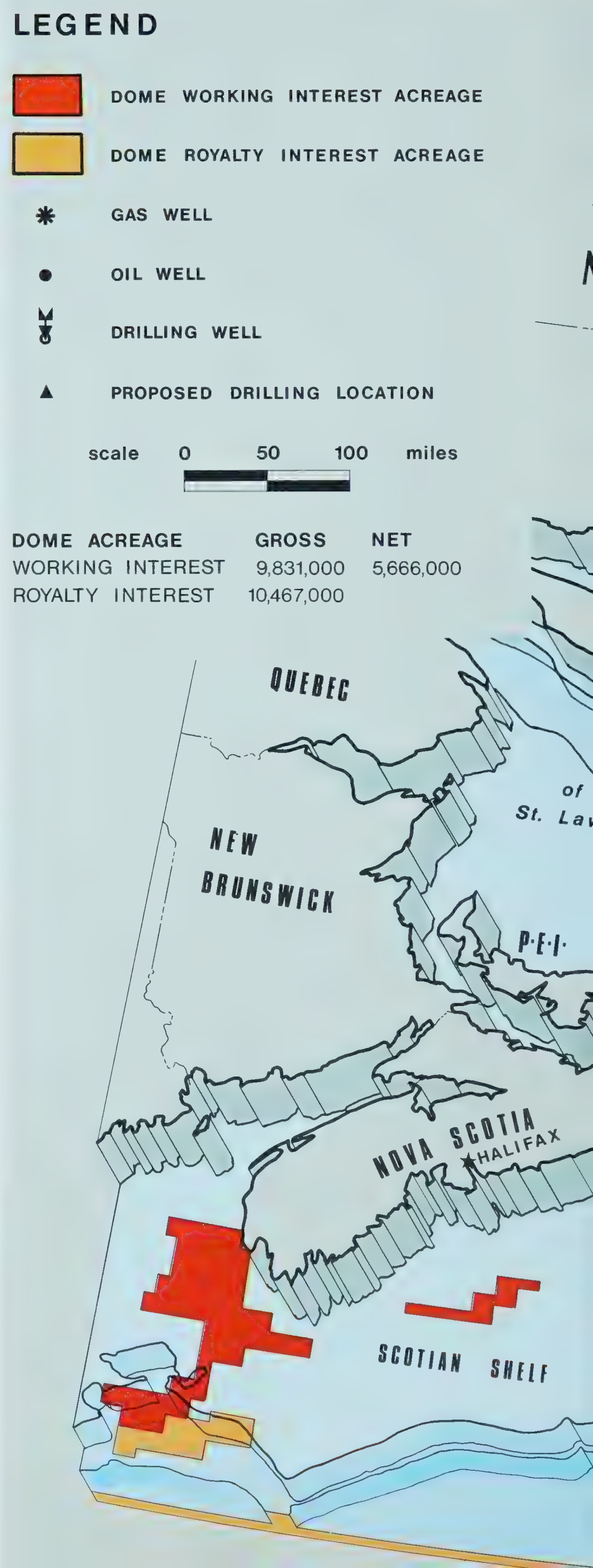
- DOME WORKING INTEREST ACREAGE
- DOME ROYALTY INTEREST ACREAGE
- DOME OIL RESERVES
- DOME GAS RESERVES
- OIL FIELD
- GAS FIELD

scale 0 50 100 miles

DOME ACREAGE	GROSS	NET
WORKING INTEREST	5,024,000	3,697,000
ROYALTY INTEREST	2,173,000	


N
ALBERTA
SASKATCHEWAN
MANITOBA
ZAMA
NETTLE
BOUNDARY LAKE
DUNVEGAN
SADDLE HILLS
OIL SANDS
NITON
EDMONTON
WILLESDEN GREEN
PROVOST
CALGARY
MEDICINE HAT
REGINA
STEELMAN

east coast



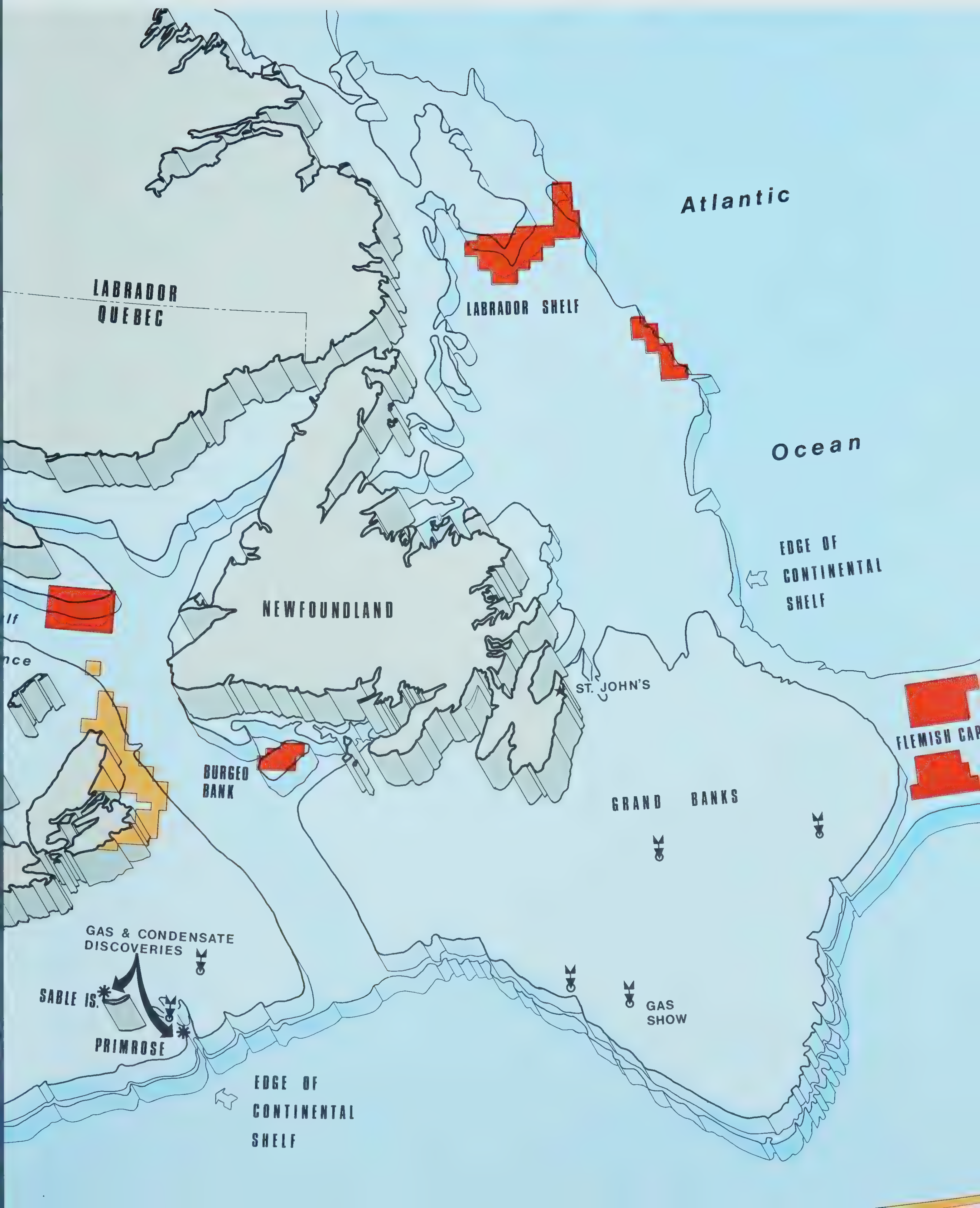
DOME ACREAGE	GROSS	NET
WORKING INTEREST	9,831,000	5,666,000
ROYALTY INTEREST	10,467,000	

The Company's acreage position off the east coast of Canada is shown on the adjoining map. Dome now has working interests in 9,830,000 acres (5,666,000 net acres) of petroleum and natural gas rights in six sedimentary offshore basins extending over a distance of 1,000 miles.

The Continental Shelf consists of thick sedimentary basins with conditions suitable for the formation and accumulation of extensive hydrocarbon reserves. Because of the proximity of the area to markets and the encouraging results achieved to date, exploration activity by industry has reached major proportions, with over $300 million committed to date for drilling and seismic surveys.

Commercial hydrocarbons have been discovered by major oil companies in the Sable Island area of the Scotian Shelf where most of the industry's drilling activity has thus far been concentrated. Dome's 3,589,000 gross acres of petroleum and natural gas rights in the southwest portion of the Scotian Shelf are well situated with respect to the adjacent United States section of the Shelf where exploration activity is now being contemplated.

On the Labrador Shelf and Flemish Cap, current drilling activity by industry will assist Dome in evaluating its acreage in these areas and in planning future exploration programs.



Atlantic
Ocean
LABRADOR
QUEBEC
LABRADOR SHELF
EDGE OF
CONTINENTAL
SHELF
NEWFOUNDLAND
ST. JOHN'S
FLEMISH CAP
BURGEO
BANK
GRAND BANKS
GAS & CONDENSATE
DISCOVERIES
SABLE IS.
PRIMROSE
GAS
SHOW
EDGE OF
CONTINENTAL
SHELF

operations review

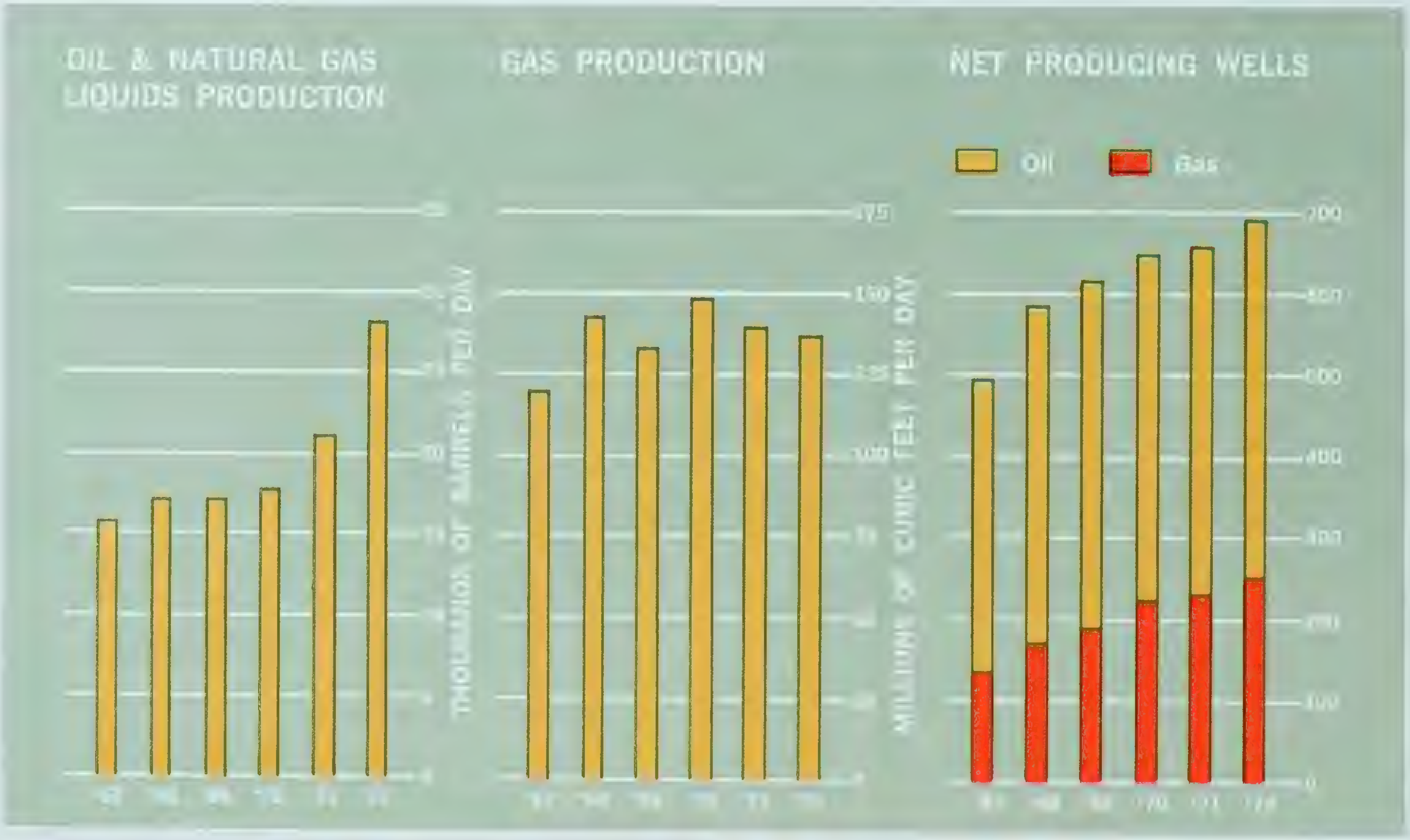
production

Production of oil and natural gas liquids averaged 28,056 barrels per day in 1972, up from 21,084 barrels per day in 1971. Natural gas production amounted to 135.5 million cubic feet per day, compared with 138.9 million cubic feet per day during the previous year. If higher prices are realized as a result of current negotiations, it will become economic to increase gas production appreciably.

After deducting 1972 production, net remaining recoverable reserves at December 31 amounted to 106,000,000 barrels of oil and natural gas liquids and 1,350 billion cubic feet of natural gas. These figures exclude the major gas reserves recently discovered at Wallis in the Arctic Islands and the heavy gravity oil reserves at Hughenden and in the Athabasca tar sands.

Production from the Dunvegan gas field in west-central Alberta commenced in January, 1973. Dome's share will amount to approximately 10 million cubic feet per day.

Development of the Company's shallow gas reserves in the Medicine Hat area of Alberta is proceeding, and a program to increase production from Dome's gas reserves in the Provost field of Alberta and the Laprise Creek field of British Columbia is in the planning stage.



Aerial view of the Dome Fractionation Plant, Sarnia, Ontario.

natural gas liquids system

Expansion of Dome's natural gas liquids system continued in 1972 with the addition of a 3.5 million barrel underground storage plant at Windsor, Ontario and enlargement of surface storage facilities at Edmonton, Alberta and Superior, Wisconsin. Work also commenced on a 115 mile pipeline from Windsor, Ontario to Green Springs, Ohio.

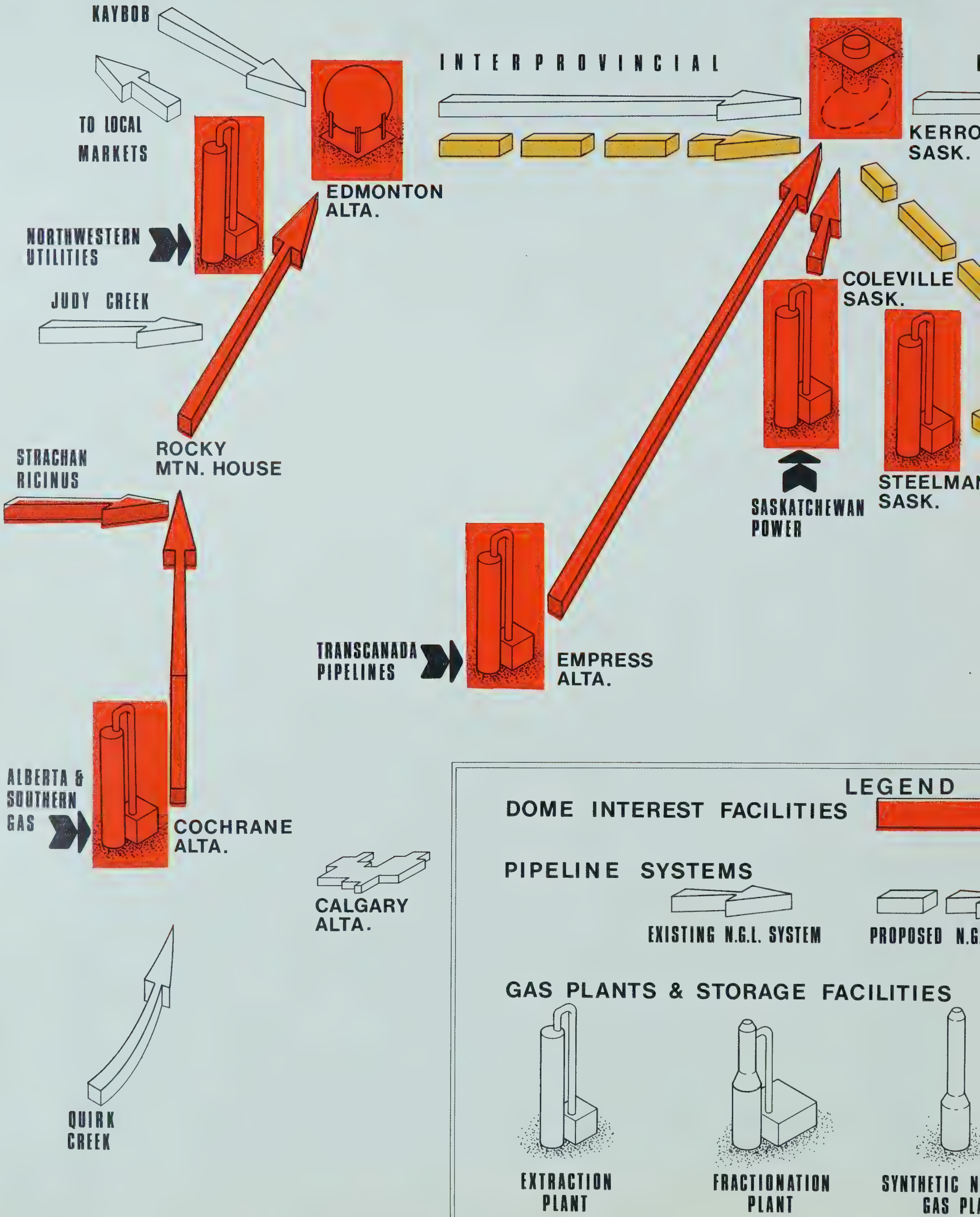
The Windsor to Green Springs pipeline was originally planned as the first link in the proposed Cochin pipeline system from Alberta to eastern Canada and the United States. Governmental approvals for construction of the Cochin pipeline have not yet been obtained and until the Cochin line is in operation, all natural gas liquids will continue to be shipped to the east via the Interprovincial pipeline system.

Delivery of natural gas liquids to two large synthetic natural gas plants is scheduled to commence in 1973. The Consumers Power Company plant at Marysville, Michigan, with an ultimate requirement of 50,000 barrels per day, of which 37½% will be supplied by Dome, is now undergoing trial runs, while Columbia LNG Corporation's 85,000 barrel per day plant at Green Springs, Ohio is expected to begin operations in the final quarter of the year. The Columbia plant is designed to utilize ethane feedstock when it becomes available from the Cochin pipeline.

Because of the rapid market growth in the Sarnia area, it has become desirable to obtain additional sources of supply for the Company's natural gas liquids system. In 1972 an agreement was reached with Shell Oil Company for the purchase of 26,000 barrels per day of natural gas liquids from Kalkaska, Michigan commencing in 1974. Dome will take delivery of the Kalkaska liquids at Marysville, Michigan from whence they will be transported by pipeline to Windsor and Green Springs.

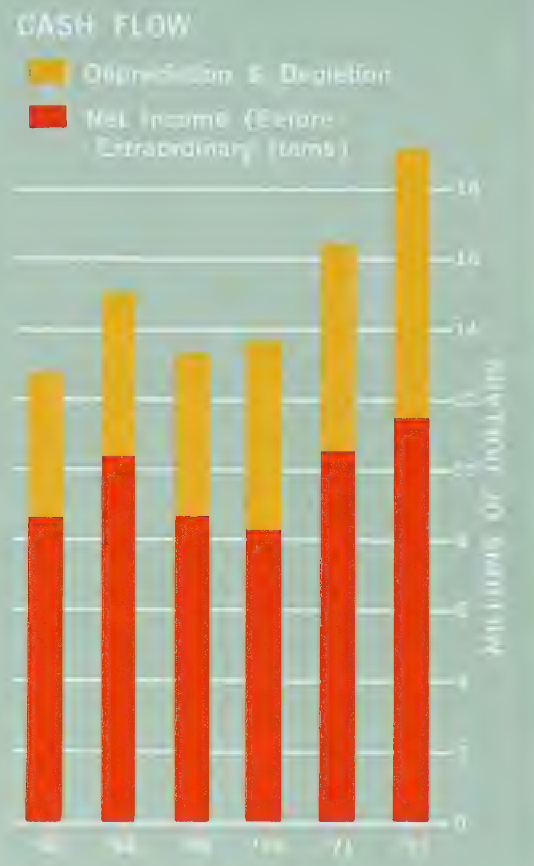
A schematic diagram of Dome's natural gas liquids system is given on the following page.

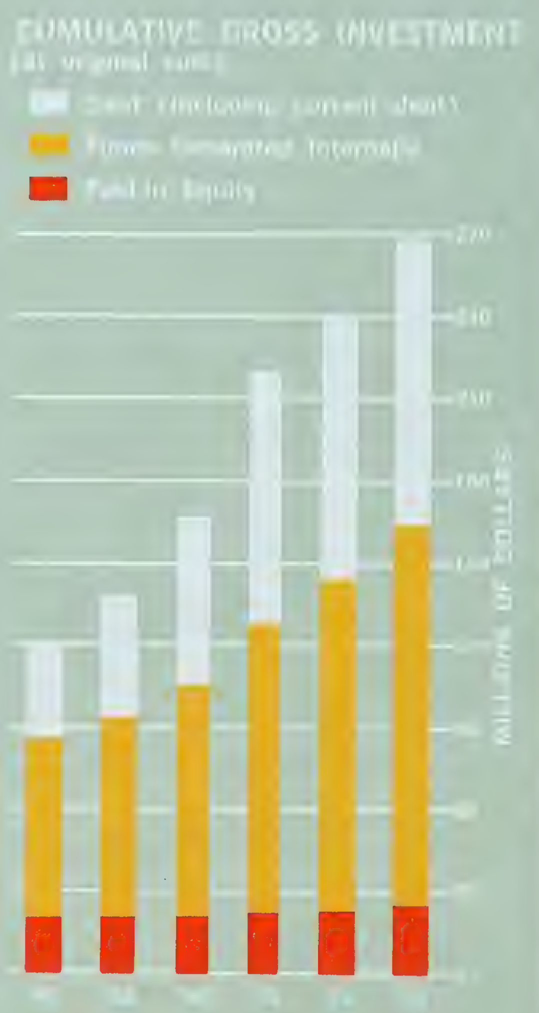
SCHEMATIC OF THE DOME



NATURAL GAS LIQUIDS SYSTEM

financial review





Continued expansion in all phases of the Company's operations is reflected in the 1972 financial statements:—

- Revenue totalled $52,736,000, an increase of $11,226,000 over the previous year.
- Cash flow after interest amounted to $17,358,000 compared with $15,902,000 in 1971.
- Net income, before extraordinary items, increased 8% to $11,033,000.
- Capital expenditures, including investments in Panarctic Oils Ltd., exceeded $37 million. Of this amount, $8 million was raised through net increases in term debt and the balance was generated internally or contributed under joint exploration agreements.

Cash flow and net income have not kept pace with increased revenues due to offsetting increases in interest expense, cost of sales and operating expenses associated with the natural gas liquids system. It is anticipated that the major capital investments which have been made during the past few years in this system and in other new projects will be reflected in increased cash flow commencing in late 1973.

The Company plans to continue its aggressive investment program in 1973. The Arctic exploration program will be expanded and major additions to the natural gas liquids system in eastern Canada and the United States are planned. Arrangements have been completed for the financing of this program.

consolidated statement of income

YEARS ENDED DECEMBER 31, 1972 AND 1971

	1972	1971
REVENUE	$52,736,000	$41,510,000
DEDUCT:		
Cost of products sold	18,125,000	11,243,000
Producing, processing and marketing expenses	11,506,000	9,573,000
General and administrative expenses	878,000	728,000
Interest on long term debt	4,448,000	3,490,000
Other interest	421,000	574,000
	35,378,000	25,608,000
CASH FLOW	17,358,000	15,902,000
DEDUCT:		
Depreciation	3,837,000	3,162,000
Depletion	2,488,000	2,537,000
	6,325,000	5,699,000
INCOME BEFORE EXTRAORDINARY ITEM	11,033,000	10,203,000
GAIN ON SALE OF INVESTMENTS	—	417,000
NET INCOME FOR THE YEAR (Note 5)	$11,033,000	$10,620,000
NET INCOME PER SHARE (on weighted monthly average number of shares outstanding during the year):		
Income before extraordinary item	$1.07	$1.00
Extraordinary item	—	.04
Net income	1.07	1.04

See accompanying notes.

consolidated statement of retained earnings

YEARS ENDED DECEMBER 31, 1972 AND 1971

	1972	1971
BALANCE AT BEGINNING OF YEAR	$75,512,000	$64,892,000
Net income for the year	11,033,000	10,620,000
BALANCE AT END OF YEAR	$86,545,000	$75,512,000

See accompanying notes.

consolidated balance sheet

DECEMBER 31, 1972 AND 1971

assets

	1972	1971
CURRENT:		
Cash	$ 3,968,000	$ 4,461,000
Accounts receivable	16,150,000	12,393,000
Inventories of products at the lower of cost or net realizable value	6,835,000	4,204,000
Materials and supplies at cost	848,000	593,000
	27,801,000	21,651,000
FIXED (Note 2):		
Property, plant and equipment at cost	246,919,000	224,211,000
Less accumulated depreciation and depletion	51,693,000	46,447,000
	195,226,000	177,764,000
OTHER:		
Shares of Panarctic Oils Ltd. at cost	3,005,000	2,189,000
Deposits and long term receivables (Note 4)	2,468,000	726,000
	5,473,000	2,915,000
	$228,500,000	$202,330,000

liabilities

	1972	1971
CURRENT:		
Bank loans (Note 3)	$ 8,000,000	$ 7,200,000
Accounts payable	11,359,000	8,884,000
Long term debt due within one year	10,647,000	9,238,000
	30,006,000	25,322,000
DEFERRED PRODUCTION INCOME	3,275,000	5,200,000
LONG TERM DEBT (Note 3)	83,079,000	73,102,000
SHAREHOLDERS' EQUITY:		
Capital (Note 4) —		
Authorized — 15,000,000 shares of no par value		
Issued — 10,363,509 shares (1971 - 10,264,404)	25,595,000	23,194,000
Retained earnings	86,545,000	75,512,000
On behalf of the Board:	112,140,000	98,706,000
	$228,500,000	$202,330,000

See accompanying notes.

Clifford W. Michel — Director.

[signature] — Director.

consolidated statement of source and application of funds

YEARS ENDED DECEMBER 31, 1972 AND 1971

	1972	1971
SOURCE OF FUNDS:		
Cash flow from operations	$17,358,000	$15,902,000
Issues of long term debt	19,994,000	7,299,000
Issues of capital stock	2,401,000	675,000
Sale of production payments	—	5,200,000
Gain on sale of investments	—	417,000
	39,753,000	29,493,000
APPLICATION OF FUNDS:		
Expenditures for property, plant and equipment	36,636,000	28,838,000
Less amounts contributed through participation agreements (Note 6)	12,849,000	8,073,000
	23,787,000	20,765,000
Reduction of long term debt	10,017,000	8,574,000
Retirement of production payments	1,925,000	—
Increase (decrease) in deposits and long term receivables	1,742,000	(304,000)
Investment in Panarctic Oils Ltd.	816,000	708,000
	38,287,000	29,743,000
INCREASE (DECREASE) IN WORKING CAPITAL	$ 1,466,000	$ (250,000)

See accompanying notes.

auditors' report

To the Shareholders of
Dome Petroleum Limited.

We have examined the consolidated balance sheet of Dome Petroleum Limited and its subsidiaries as at December 31, 1972 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, except that no provision has been made for deferred income taxes in respect of depreciable assets as explained in Note 5, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada.
March 8, 1973.

CLARKSON, GORDON & CO.
Chartered Accountants.

notes to consolidated financial statements

DECEMBER 31, 1972

1. Basis of Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. The excess of the cost of investment in subsidiaries over their net book values at dates of acquisition has been allocated to property, plant and equipment in the accompanying balance sheet.

The accounts of the U.S. subsidiaries have been translated into Canadian dollars on the following basis: current assets and current liabilities at the rate of exchange in effect at the year-end, fixed assets and long term debt at historical rates and income and expenses at the average rates for the year. The net gain on translation, which is not material in amount, has been included in income.

2. Property, Plant and Equipment

	Gross investment at cost	Accumulated depreciation and depletion	Net investment 1972	Net investment 1971
Plants, buildings, pipelines and related facilities	$115,006,000	$25,033,000	$ 89,973,000	$ 75,296,000
Oil and gas properties	97,070,000	19,844,000	77,226,000	76,940,000
Production facilities and other equipment	34,843,000	6,816,000	28,027,000	25,528,000
	$246,919,000	$51,693,000	$195,226,000	$177,764,000

The companies follow the full-cost method of accounting wherein all costs relative to the exploration for and the development of oil and gas reserves, whether productive or non-productive, are capitalized and depleted on the composite unit-of-production method based on estimated proven reserves of oil and gas. Production facilities and other equipment are also depreciated on the composite unit-of-production method, while plants, buildings, pipelines and related facilities are depreciated on the straight line method at rates designed to amortize the cost of the assets over their estimated useful lives.

3. Long Term Debt

	1972	1971
First Mortgage Bonds —		
5¾% Sinking fund bonds, due 1973	$ 500,000	$ 985,000
5¾% Sinking fund bonds, due 1978	1,764,000	2,100,000
5¾% Serial bonds, due 1984 (U.S. $9,317,000)	10,051,000	10,622,000
6½% bonds, due 1985	777,000	814,000
Debentures —		
6% Sinking fund debentures, due 1973	2,000,000	2,000,000
5% Convertible income debentures, due 1988	15,000,000	15,000,000
Term bank loans, with interest varying from ½% to 1% in excess of the prevailing prime bank rate —		
Canadian loans, due 1972	—	1,200,000
due 1975	9,480,000	7,320,000
due 1979	14,500,000	10,000,000
due 1980	8,500,000	—
due 1981	14,981,000	16,050,000
U.S. loans, due 1972	—	4,054,000
due 1979 (U.S. $11,125,000)	11,946,000	11,946,000
due 1980 (U.S. $ 4,000,000)	3,994,000	—
due 1981 (U.S. $ 234,000)	233,000	249,000
	93,726,000	82,340,000
Less amounts due within one year	10,647,000	9,238,000
	$83,079,000	$73,102,000

The 5% Convertible Income Debentures are secured by a floating charge on all of the Company's undertaking, property and assets, both present and future, are convertible at any time to May 15, 1988 into common shares of the Company at $28.25 per share and are redeemable after May 15, 1973 at 105 percent of the principal amount.

Term bank loans of $33,446,000 maturing by 1979 are secured by demand debentures which represent first floating charges on various plants and related facilities. The other term loans are secured by certain producing properties and pipeline facilities.

Bank loans included in current liabilities are partially secured by an assignment of accounts receivable and an undertaking to provide oil and gas security if requested.

Approximate instalments of long term debt (including sinking fund payments) due in each of the years 1974 to 1977 are as follows: 1974 - $8,292,000; 1975 - $12,798,000; 1976 - $9,049,000; 1977 - $9,200,000.

4. **Capital**

The Company has established, subject to shareholder ratification, a Stock Purchase Plan under which 100,000 common shares have been reserved for purchase and immediate resale by a Trustee to key employees at the average sale price of the Company's shares on the date of the transaction. During the year 50,000 shares were sold to the Trustee and resold to employees under the Plan for $36.25 per share. The total purchase price of the shares, $1,813,000, was advanced by the Company to the Trustee and is included in deposits and long term receivables in the accompanying balance sheet. In addition, during the year the Company issued 45,492 shares on the exercise of options for $588,000 cash and 3,613 shares in exchange for shares of a subsidiary.

At December 31, 1972, 910,462 shares of the Company's stock were reserved as follows:

530,910 shares for the conversion of the 5% Convertible Income Debentures,

318,399 shares for options granted to officers and employees (of which options on 172,389 shares relate to officers) exercisable on various dates to April 25, 1981 at prices ranging from $4.27 to $27.08 per share,

50,000 shares for sale under the Company's stock purchase plan and

11,153 shares for the shares of a subsidiary not yet presented for exchange.

5. **Income Taxes**

For income tax purposes, the companies claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation) in amounts which exceed the related charges to income. As a result, no income taxes are payable in respect of income reported for the year ended December 31, 1972; and at that date unclaimed drilling, exploration and lease acquisition costs and capital cost allowances in the aggregate amount of $81,065,000 were available to be applied against future taxable income.

The companies believe that tax allocation accounting is not appropriate in the oil and gas industry and accordingly no provision has been made for deferred taxes on timing differences. If the tax allocation basis had been followed, deferred income taxes would have been provided in 1972 in the amount of $4,554,000 ($.44 per share) and in 1971 in the amount of $4,082,000 ($.40 per share) and net income for those years would have been reduced accordingly. Of the foregoing, $2,115,000 ($.20 per share) in 1972 and $2,053,000 ($.20 per share) in 1971 are in respect of depreciable assets.

The accumulated income tax reductions relating to all timing differences in the current and prior years amounted to $30,965,000 at December 31, 1972 and $26,411,000 at December 31, 1971.

6. **Participation Agreements**

Under an agreement with Columbia Gas Development of Canada Ltd., Columbia will earn an undivided 7½% interest in the Company's exploratory acreage by contributing $30,000,000 towards a joint exploration and land acquisition program, at the rate of approximately $10,000,000 per year. Columbia's contributions under this program to December 31, 1972 were $17,339,000.

An agreement was reached in 1972, with the subsidiaries of three major United States gas utilities, whereby these companies agreed to contribute $30,000,000 towards the cost of drilling exploratory wells on the Company's acreage in the Arctic Islands. The companies will earn a 1% undivided interest in the blocks drilled upon and the first right to purchase 75% of any gas discovered.

7. **Directors and Officers**

The eight members of the Board do not receive any remuneration for their services as directors. Four of the directors are also officers. The aggregate remuneration paid in 1972 to the eight officers was $265,000.

ten year review

financial

(Dollar amounts in thousands except per share figures)	1972	1971	1970
Revenue	$ 52,736	$41,510	$28,589
Cost of Product Sold	18,125	11,243	4,748
Operating & Administration Expense	12,384	10,301	7,589
Interest Expense	4,869	4,064	3,134
Cash Flow	17,358	15,902	13,118
Cash Flow per Share	1.68	1.55	1.29
Depreciation and Depletion	6,325	5,699	5,091
Net Income before extraordinary items	11,033	10,203	8,027
Net Income per Share	1.07	1.00	.79
Extraordinary Income	—	417	2,078
Capital Expenditures			
Land Acquisition & Rental	3,687	2,468	3,375
Exploration	6,958	4,552	3,452
Development	7,938	2,827	1,223
Plants, Pipelines, etc.	18,253	18,991	30,865
Total	36,636	28,838	38,915
Long Term Debt	$ 83,079	$73,102	$74,377
Average Shares Outstanding (thousands)	10,316	10,235	10,153

* After deducting exploration expenditures (in 1965, full cost accounting method was adopted)

operations

	1972	1971	1970
Average Daily Production			
Oil & Natural Gas Liquids — barrels	28,020	21,084	17,843
Natural Gas — cubic feet (millions)	135.3	138.9	148.3
Oil, NGL & Oil Equivalent of Gas — barrels	34,955	28,185	25,562
Reserves**			
Oil & Natural Gas Liquids — barrels (millions)	106.0	109.5	114.0
Natural Gas — cubic feet (billions)	1,350	1,297	1,306
Net Producing Wells			
Oil	436	426	424
Gas	251	228	222
Wells Drilled			
Working Interest — Gross	64	57	64
Working Interest — Net	29.8	19.3	45.9
Royalty Interest — Gross	39	24	28
Land Holdings*** — acres (thousands)			
Working Interest — Gross	43,268	22,112	22,256
Working Interest — Net	23,656	16,403	17,209
Royalty Interest — Gross	45,191	236	240

**Excludes Arctic Islands Reserves.
***Includes land acquired in January, 1973.

1969	1968	1967	1966	1965	1964	1963
$23,592	$24,561	$21,769	$17,848	$15,243	$13,708	$12,200
2,109	1,905	2,275	1,665	899	336	307
5,911	5,683	5,150	4,685	3,938	3,514	3,256
2,796	2,521	2,183	1,780	1,423	1,187	1,035
12,776	14,452	12,161	9,718	8,983	8,671	7,602
1.27	1.44	1.22	.98	.91	.88	.77
4,389	4,374	3,800	3,294	3,210	2,902	2,701
8,387	10,078	8,361	6,424	5,773	4,085*	3,386*
.83	1.00	.84	.65	.58	.41	.34
—	—	—	—	—	398	—
5,533	5,098	4,441	3,137	1,470	6,090	1,517
3,718	2,668	4,576	2,773	1,574	1,154	1,043
5,447	6,535	7,526	5,869	5,598	3,655	4,130
14,010	4,068	4,927	1,796	4,138	1,775	1,824
28,708	18,369	21,470	13,575	12,780	12,674	8,514
$42,637	$38,228	$29,270	$23,978	$21,264	$18,096	$14,476
10,098	10,045	9,945	9,907	9,899	9,852	9,839
17,071	17,102	15,775	13,623	12,178	11,484	10,569
133.4	141.6	119.7	101.9	100.8	97.5	95.6
24,079	24,615	21,238	18,280	16,532	15,896	14,912
116.9	73.3	61.9	59.3	53.8	50.8	48.3
1,184	1,100	1,011	919	829	793	754
426	414	359	335	309	269	237
187	168	131	117	99	83	79
58	116	88	97	88	61	64
38.3	87.3	68.5	67.0	65.7	43.1	41.0
17	18	14	7	12	9	2
23,778	19,593	13,268	7,504	6,065	6,746	6,764
19,127	15,932	11,004	5,213	3,829	4,195	4,204
276	290	279	283	211	165	192

Figures for all years include Provo Gas Producers Limited.

cover

Close-up view of clamp and bolt assembly on one of the vessels at Dome's Extraction Plant, Empress, Alberta.

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